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UNCLAS SECTION 01 OF 02 HARARE 000097

SIPDIS

SENSITIVE

AF/S FOR B. NEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
STATE PASS TO USAID FOR M. COPSON AND E.LOKEN
TREASURY FOR J. RALYEA AND B. CUSHMAN

E.O. 12958: N/A
TAGS: ECON EFIN PGOV ASEC ZI
SUBJECT: PARALLEL EXCHANGE RATE JUMPS 50 PERCENT

## Summary

¶1. (SBU) After a period of relative stability over the holiday season, the parallel rate suddenly jumped 50 percent in the past week. The jump coincided with renewed business activity, a dearth of forex on the interbank market, and the arrival of an IMF mission sent to assess the state of the economy and clarify the source of funds the GOZ used to repay its IMF arrears. It is likely the start of a precipitous slide. End Summary.

## Parallel Rate Jump Follows Period of Stability

¶2. (SBU) Over the holiday season, when demand is always low and supply from the diaspora is at its peak, the interbank rate, which the RBZ had allowed to depreciate steadily since October, converged to within a few percentage points of the parallel market rate. In early January the official rate was at Z$85,000:US$1 while the unofficial rate was approximately Z$95,000:US$1. Since early January, however, forex has been in scant supply while demand has kicked back in with the post-holiday re-opening of businesses. After gradually climbing to around Z$100,000:$US1, the rate suddenly surged this past week by roughly 50 percent to Z$150,000. The interbank rate meanwhile remained static.

¶3. (SBU) According to Best Doroh, Principal Economist at Finhold Ltd, uncertainty and a lack of transparency contributed to the foreign exchange market's volatility. He told econoff that information had leaked to the market that the RBZ was about to tighten control over foreign exchange trading. As reported septel, the new foreign exchange policy announced by Reserve Bank of Zimbabwe Governor Gono on January 24 introduced linkage of movement in the interbank market rate to the daily volume of forex traded. At volumes under US$5 million/day, the exchange rate would not adjust. Lionel Chinyamutangira, Head of Risk Management at NMB Bank, relayed to econoff on January 27 that since inception of the interbank market in October, volume had not once exceeded US$5 million, even as the rates approached convergence.

¶4. (SBU) The sudden jump also corresponded with the arrival of an IMF team in Zimbabwe. The team has been sent to assess the state of the economy in preparation for the six-monthly review of Zimbabwe,s overdue obligations to the IMF, tentatively scheduled for March. It will also seek to clarify the source of the funds used to repay a portion of Zimbabwe,s IMF arrears in September. Emma Fundira, Managing Director of Finesse Advisory Services, relayed to econoff on January 27 the word on the street that recent RBZ purchase of U.S. dollars on the parallel market in the past four weeks to pay down IMF arrears had also contributed strongly to driving up the parallel rate.

## Start Of A Serious Slide

¶5. (SBU) Respected local economist John Robertson has publicly predicted that the unofficial exchange rate could reach Z$500,000:US$1 by the end of the year if the GOZ does not take comprehensive steps to stabilize the economy. In addition, several banking sector contacts noted that pressure to pay down Zimbabwe,s entire arrears to the IMF General Resources Account before the tentatively scheduled March Board date would put further pressure on the forex market and likely drive the RBZ to the parallel market, further fueling inflation.

## Comment

¶6. (SBU) The RBZ,s half-hearted attempt to converge the two rates has fallen victim to the Bank,s latest forex policy about-face. The policy change is tantamount to a full reversal of the liberalized exchange regime introduced in October and the creeping official devaluation which Gono appeared to have sold to an even reluctant Mugabe (who reportedly believes that the true worth of the Zimbabwe dollar remains what it was at independence - US$2=Z$1 - all the subsequent decline being the result of unprincipled traders). If implemented as stated, Gono's new policy linking further devaluation to the volume of forex trading in offocial channels will likely freeze the official exchange rate while further feeding the spiraling parallel market. As long as economic fundamentals remain as unstable as they are today, we fully expect a continued slide in the Zim dollar on the parallel market, even thinner trading on the interbank market, and consequently a widening gap between the two rates.
DELL